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ENVELOPE

CDSN = LGX264 MCN = 90153/19676 TOR = 901531645

OTTCZYUW RUEKJCS8514 1531643-CCCC--RUEALGX.

ZNY CCCCC

HEADER

O 021643Z JUN 90

FM JOINT STAFF WASHINGTON DC

INFO RUEADWD/OCSA WASHINGTON DC

RUENAAA/CNO WASHINGTON DC

RUEAHQA/CSAF WASHINGTON DC

RUEADWD/PTC WASH DC

RUFGAID/USEUCOM AIDES VAIHINGEN GE

RUEAMCC/CMC CC WASHINGTON DC

RUEOFAA/COMJSOC FT BRAGG NC//J2//

RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL

RUCJACC/USCINCCENT MACDILL AFB FL//CARA//

RUWANGC/CJTF FIVE//J20//

RUANJTF/CJTF FOUR

RUEOACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//

RUEALGX/SAFE

O 021615Z JUN 90

FM SECSTATE WASHDC

TO RUFHAD/AMEMBASSY ABU DHABI IMMEDIATE 0000

INFO RUEHRH/AMEMBASSY RIYADH IMMEDIATE 0000

BT

CONTROLS

C O N F I D E N T I A L STATE 178514

E.O. 12356: DECL:OADR

BODY

TAGS: SNAR, EFIN, TC

SUBJECT: INFORMATION REQUEST ON BCCI

REF: (A) ABU DHABI 930; (B) ABU DHABI 2567; (C) ABU DHABI 2787

1. QUESTIONS/ISSUES POSED BY REFTTEL (B), ALONG WITH ADDITIONAL INFORMATION IN (A) AND (C) WERE CONSIDERED AT MEETINGS 5/17 AND 6/1 INVOLVING STATE (INM, UAE, L/LEI); TREASURY (OFE, OCC, CUSTOMS AND UAE DESK); FEDERAL RESERVE AND JUSTICE (CRIMINAL DIVISION AND DEA).

2. WE ENCOURAGE AMBASSADOR AND EMBOFFS TO CONTINUE WITH STRONG MESSAGE IN (C). THE CONCERNS OF UAE CENTRAL BANK GOVERNOR ABDUL MALIK AL-HAMAR ARE NOTED; THE ABU DHABI INVESTMENT AUTHORITY HAS INCREASED ITS HOLDINGS FROM LESS THAN 50 TO A DOMINANT 77 SHARE OF BCCI -- AN EXPOSURE OF MORE THAN \$400 MILLION. WE WOULD HOPE THAT THE VERY PUBLICITY-SENSITIVE EMIRATES ARE INDEED QUITE CONSCIOUS

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IS/FPC/CDR *WHL* Date *2/13/95*

DEPARTMENT OF STATE	☒ RELEASE EXCISE	☒ DECLASSIFY IN PART	☐ DENY Non-Responsive Info	☐ FJ/A exemptions PA Exemptions	MR Cases Only:	TS authority to: () S or () C OADR () DOWNGRADE TS to () S or () C OADR
					EO Citations	

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ABOUT THE POTENTIAL OF THIS INVESTMENT TO TARNISH ITS REPUTATION IN FINANCIAL CIRCLES.

3. WE SUGGEST THE AMBASSADOR MAKE THE FOLLOWING POINTS:
(1) WE CONTINUE TO BE CONCERNED ABOUT THE VULNERABILITY OF THE UAE TO MONEY LAUNDERING, INCLUDING THE USE OF THE UAE AS A FINANCIAL HAVEN FOR PAKISTANI AND INDIAN TRAFFICKERS, AS NOTED IN THE 1990 INCSR. IN THAT REGARD, WE ARE PREPARED TO HELP THE UAE DEVELOP NEW POLICIES AND REGULATIONS. (2) WHILE U.S. ENFORCEMENT AGENCIES ARE APPRECIATIVE OF COOPERATION THEY ARE RECEIVING FROM BCCI AS A RESULT OF THE FLORIDA DECISION, THEY CONTINUE TO VIEW BCCI AS A TROUBLED INSTITUTION AND SHARE AMBASSADOR'S BELIEF THAT BCCI TAKEOVER AFFORDS ABU DHABI A GOOD OPPORTUNITY TO CLEAN UP THE BANK. (3) BCCI CONTINUES TO UNDERGO SCRUTINY BY REGULATORS FROM THE FEDERAL RESERVE SYSTEM AND STATE BANKING AUTHORITIES. IT HAS NOT YET BEEN DETERMINED IF BCCI HAS TAKEN THE MEASURES NECESSARY TO SATISFY U.S. REGULATORY AUTHORITIES THAT THE INSTITUTION WILL OPERATE IN A SAFE AND SOUND MANNER. OVERSIGHT OF U.S. OPERATIONS BY THE FEDERAL RESERVE WILL CONTINUE FOR THE FORESEEABLE FUTURE. (4) WHILE PENDING US LEGISLATION CITED IN REFTELS DOES NOT SEEM TO APPLY TO BCCI (SEE BELOW) THE ACTIVITIES OF THE BANK ARE SUBJECT TO CONTINUING INVESTIGATION AND PROSECUTION.

4. NEW LEGISLATION. THE HOUSE HAS PASSED AND THE SENATE HAS UNDER CONSIDERATION LEGISLATION THAT WOULD REQUIRE FEDERAL DEPOSITORY INSTITUTIONS REGULATORS TO BEGIN PROCEEDINGS TO EVALUATE WHETHER TO REVOKE THE CHARTER OR TERMINATE FDIC INSURANCE (DEPENDING ON WHETHER THE INSTITUTION IS A NATIONAL OR STATE BANK) WHEN A DEPOSITORY INSTITUTION HAS BEEN CONVICTED OF A MONEY LAUNDERING VIOLATION. IN MAKING A FINAL DETERMINATION ON CHARTER REVOCATION OR INSURANCE TERMINATION, THE APPROPRIATE FEDERAL REGULATOR WOULD BE REQUIRED TO DETERMINE IF THE GRAVITY OF THE OFFENSE OUTWEIGHS THE BENEFITS OF CONTINUED OPERATION. BECAUSE BCCI DOES NOT POSSESS A NATIONAL CHARTER OR MAINTAIN FDIC INSURANCE, AND NEITHER THE HOUSE NOR SENATE BILL AS CURRENTLY DRAFTED WOULD APPLY TO STATE-LICENSED, UNINSURED FOREIGN BRANCHES OR AGENCIES SUCH AS BCCI IN FLORIDA, THE PENALTIES IMPOSED BY THE PROPOSED LEGISLATION WOULD NOT SEEM TO BE APPLICABLE TO BCCI. HOWEVER, THE FACT THAT A BRANCH OR AGENCY OF A FOREIGN BANK IS CONVICTED OF MONEY LAUNDERING VIOLATIONS WOULD INFLUENCE FEDERAL AND STATE REGULATORY AUTHORITIES TO TAKE APPROPRIATE ACTION AGAINST THE INSTITUTION, INCLUDING REVOCATION OF A STATE LICENSE AS WAS DONE IN THE CASE OF BCCI IN FLORIDA.

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5. ON THE QUESTION OF THE APPLICABILITY OF THE LAW GENERALLY, AND SPECIFICALLY ON THE RETROACTIVE APPLICATION OF THE LAW, WE WOULD ENCOURAGE CONCERNED INSTITUTIONS TO SEEK LEGAL COUNSEL, AND THEREFORE WOULD OFFER NO OPINION. (FOR BACKGROUND ONLY: IT IS THE VIEW OF THE US TREASURY THAT THE PROVISIONS WOULD APPLY ONLY TO A BANK THAT WAS CONVICTED AFTER THE EFFECTIVE DATE OF THE ACT. IT WOULD APPLY TO ACTIONS THAT TOOK PLACE BEFORE THE EFFECTIVE DATE, AS LONG AS THE CONVICTION WAS AFTER THE EFFECTIVE DATE.)

6. ASSURANCES SOUGHT. THE SECOND QUESTION IN REFTEL (B) ASKS ABOUT THE KINDS OF ASSURANCES THE USG CAN GIVE IF THE UAE COOPERATES FULLY ON BCCI. THE USG CANNOT OFFER THE KINDS OF ASSURANCES THE REFTEL SEEMS TO SEEK.

7. FUTURE COOPERATION. WE ARE VERY INTERESTED IN WORKING WITH UAE OFFICIALS ON THEIR GENERAL BANKING SITUATION. WE URGE UAE OFFICIALS TO RATIFY AND ADOPT LEGISLATION TO IMPLEMENT THE UNITED NATIONS CONVENTION AGAINST TRAFFICKING IN ILLICIT NARCOTICS AND PSYCHOTROPIC DRUGS. WE THINK BANKS EVERYWHERE WOULD BENEFIT FROM ADOPTING THE BASLE PRINCIPLES, WHICH STRONGLY EMPHASIZE KNOW YOUR CUSTOMER POLICIES AND OTHER PREVENTIVE MECHANISMS. THE 40 RECOMMENDATIONS ADOPTED BY THE ECONOMIC SUMMIT FINANCIAL ACTION TASK FORCE MERIT CAREFUL REVIEW AND ADOPTION BY THE UAE. THE GUIDANCE ON MONEY LAUNDERING AT THE RECENT UNITED NATIONS SPECIAL SESSION IS VERY WORTHY.

8. THE RECOMMENDATIONS CONTAINED IN THESE POLICY DOCUMENTS INCLUDE MAKING MONEY LAUNDERING A CRIMINAL OFFENSE, REQUIRING THE RECORDING OF LARGE CURRENCY TRANSACTION INFORMATION, ELIMINATING LEGISLATIVE BARRIERS TO DOMESTIC AND INTERNATIONAL SHARING OF INFORMATION ON MONEY LAUNDERING, PROSECUTION OF MONEY LAUNDERING OFFENSES, AND A VARIETY OF OTHER STEPS WHICH ENSURE THAT BANK SECRECY IS NOT A BAR TO INVESTIGATION AND PROSECUTION.

9. THE USG IS PREPARED TO OFFER ADVICE TO THE UAE ON THESE RECOMMENDATIONS, AS WELL AS TECHNICAL ASSISTANCE OVER A WIDE RANGE OF SUBJECTS, FROM BANK REGULATION TO CONDUCTING MONEY LAUNDERING INVESTIGATIONS. BAKER

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